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E. O. 11652: GDS
TAGS: PINT, PFOR, EGEN, MX
SUBJECT: MONTHLY HIGHLIGHTS - APRIL-MAY 1977

REF: MEXICO 4702

SUMMARY: DOMESTIC POLITICAL ACTIVITY PICKED UP DURING
APRIL AND MAY, RESPONDING TO THREE DYNAMICS:

- THE LACK OF DEMONSTRABLE PROGRESS TOWARDS A RESUMPTION
OF ECONOMIC GROWTH WITHOUT INFLATION;
- A PERCEPTION SHARED BY BOTH LEFT AND RIGHT THAT THE
LOPEZ PORTILLO GOVERNMENT REPRESENTED A TURN TOWARDS THE
RIGHT, BOTH POLITICALLY AND ECONOMICALLY;
- CONCERN OVER ALLEGED ACTIVITIES OF FORMER PRESIDENT
ECHEVERRIA AND THE PRESENCE IN THE LOPEZ PORTILLO GOVERN-

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MENT OF ECHEVERRIA'S LOYALISTS.

IN FOREIGN AFFAIRS, MEXICO TURNED ITS ATTENTION TO
ECONOMIC RELATIONS WITH A FEW KEY COUNTRIES. END SUMMARY.

2. MEXICAN ECONOMY STILL STAGNATES.

THE MEXICAN ECONOMY CONTINUES WEAK IN THE INDUSTRIAL SECTOR, PARTICULARLY IN STEEL, AUTOS, AND CONSTRUCTION, ALL RELATIVELY LABOR INTENSIVE. GRAIN AND MEAT PRODUCTION LIKEWISE SHOW NO SIGNS OF EXPANSION. BOTH PUBLIC AND PRIVATE INVESTMENT ARE STAGNATING, THE FORMER BECAUSE OF CREDIT LIMITATIONS OWING TO MEXICO'S HUGE FOREIGN INDEBTEDNESS; THE LATTER TO UNCERTAINTY AND LOW CAPITALIZATION OF PRIVATE ENTERPRISE AFTER DEVALUATION. WE THINK UNEMPLOYMENT MUST BE GROWING, ALTHOUGH STATISTICS ARE LACKING.

ONE OF THE FEW BRIGHT SPOTS IN THE EXTERNAL SECTOR, WHICH IN THE FIRST FOUR MONTHS HAD A NEGATIVE MERCHANDISE BALANCE OF ONLY \$176 MILLION, COMPARED TO THE \$982 MILLION JANUARY-APRIL 1976. THE DEVALUATION, STRICTER IMPORT CONTROLS, AND HIGH WORLD PRICES FOR COFFEE AND OIL ARE LARGELY ACCOUNTING FOR THIS IMPROVEMENT. ANOTHER BRIGHT SPOT IS THE CONTINUED EXPANSION OF INVESTMENT, PRODUCTION, AND SALES OF PEMEX, THE GOVERNMENT PETROLEUM MONOPOLY. UNFORTUNATELY, THIS IS NOT HAVING ANY EFFECT ON THE EMPLOYMENT SITUATION.

3. 10 PERCENT WAGE RESTRAINT POLICY INTACT, BUT ...
THE MOST IMMEDIATE POLITICAL CONSEQUENCE OF THE ECONOMIC SITUATION IS BEING FELT IN THE LABOR SECTOR. ORGANIZED LABOR CONTINUED TO HONOR ITS PLEDGE TO HOLD COLLECTIVE CONTRACTUAL WAGE SETTLEMENTS TO NO MORE THAN 10 PERCENT, BUT LABOR'S HEAD MAN VELAZQUEZ AND OTHER MAJOR LEADERS HAVE PUBLICLY REMINDED THE PRESIDENT THAT AS OF JUNE 1 THEY WILL BE TAKING A CLOSE LOOK AT CONSUMER PRICE LEVELS
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(WHICH INCREASED 10 PERCENT FROM JAN 1 THROUGH APRIL) AND PROBABLY WILL BE HIKING UP FUTURE WAGE DEMANDS. WE EXPECT INCREASED TENSIONS BETWEEN LABOR AND MANAGEMENT AND LABOR AND GOVERNMENT (WHICH IS ALSO A MANAGER) DURING THE COMING MONTHS. WITH SO LITTLE VISIBLE PROGRESS HOLDING INFLATION IN CHECK, GOM WILL HAVE DIFFICULTY GETTING LABOR'S CONTINUED COOPERATION.

4. GOM FIGHTS RIGHTIST LABEL

ACCUSATIONS FROM WITHIN THE POLITICAL ESTABLISHMENT THAT THE LOPEZ PORTILLO GOVERNMENT REPRESENTED A "TURN TO THE RIGHT" (WHICH SURFACED PARTICULARLY AFTER NOMINATION OF DIAZ ORDAZ AS AMBASSADOR TO SPAIN) BROUGHT DENIALS FROM BOTH CABINET MINISTERS AND THE PRESIDENT IN APRIL AND MAY. INDEED, THE GOM'S UNEASINESS WITH A RIGHTIST LABEL MAY HAVE INFLUENCED AT LEAST THE TIMING OF ITS DECISION TO DROP CHARGES AGAINST 400 POLITICAL PRISONERS AND TO PROCEED WITH THE POLITICAL REFORM ANNOUNCED APRIL 1.

MORE IMPORTANTLY (ALTHOUGH THIS IS PURELY CONJECTURAL) THIS FACTOR MAY HAVE INFLUENCED THE GOM NOT TO REVERSE, EVEN PARTIALLY, PRESIDENT ECHEVERRIA'S LAND EXPROPRIATION IN SONORA LAST NOVEMBER.

5. LOPEZ PORTILLO UPHOLDS ECHEVERRIA LAND EXPROPRIATION AFTER AGRARIAN REFORM OFFICIALS HAD WORKED SEVERAL MONTHS ON A "POLITICAL SOLUTION" TO THE SONORA LAND EXPROPRIATION WHICH WOULD HAVE RETURNED AT LEAST SOME OF THE LANDS TO THEIR FORMER OWNERS, PRESIDENT LOPEZ PORTILLO ANNOUNCED IN AN EARLY MAY VISIT TO SONORA THAT NONE OF THE LANDS WOULD BE RETURNED, BUT THAT THE GOM WOULD PAY INDEMNIFICATION. ALTHOUGH RETURNING SOME LANDS WOULD HAVE PRESENTED TECHNICAL LEGAL PROBLEMS, WE SUSPECT THE GOM WAS INFLUENCED MORE BY THE POLITICAL CONSIDERATION NOT TO REINFORCE THE VIEW OF THE MEXICAN LEFT (ECHEVERRIA LOYALISTS, CAMPESINO GROUPS, UNREGISTERED OPPOSITION

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GROUPS, ACADEMIC COMMUNITY) THAT THIS GOVERNMENT HAS TURNED TO THE RIGHT.

6. POLITICAL REFORM: WILL COMMUNISTS BE REGISTERED?

GOM THROUGHOUT MAY HAS CONDUCTED PUBLIC HEARINGS ON THE POLITICAL REFORM ANNOUNCED APRIL 1 BY INTERIOR SECRETARY REYES HEROLES. LEFTIST GROUPS WANT REGISTRATION REQUIRE-

MENTS FOR NEW PARTIES VIRTUALLY ELIMINATED; AN ELECTORAL BOARD INDEPENDENT OF THE GOM/PRI; A SYSTEM OF PROPORTIONAL REPRESENTATION; AND A DOUBLING OF THE NUMBER OF FEDERAL DEPUTIES.

MOST INTEREST CONCERNS WHETHER REGISTRATION REQUIREMENTS WILL BE EASED SUFFICIENTLY TO LET THE MEXICAN COMMUNIST PARTY (PCM) REGISTER UNDER ITS OWN NAME. THE PCM AND SEVERAL OTHER LEFTIST GROUPS ARE DISCUSSING A JOINT REGISTRATION EFFORT, BUT APPARENTLY ARE HAVING PREDICTABLE

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DISAGREEMENT CONCERNING WHICH PARTY WOULD BENEFIT FROM THE JOINT EFFORT.

THE PCM HELD A NATIONAL ASSEMBLY IN THE WEEK OF MAY 23 WHICH IT OPENED TO THE PUBLIC TO GAIN RESPECTABILITY AND TO ATTRACT PRESS ATTENTION. PCM STRENGTH IS TOTALLY CENTERED ON UNIVERSITY CAMPUSES, AN AREA WHERE IT IS CAUSING STATE AND FEDERAL GOVERNMENT SOME CONCERN (SEE FOLLOWING ITEM).

THE GOVERNMENT'S OBJECTIVE IS TO BRING MEXICO'S POLITICAL DISSIDENCE WITHIN THE SYSTEM, WHERE IT CAN BE CONTROLLED MORE EASILY, TO PROVIDE A NON-VIOLENT, HARMLESS OUTLET FOR POLITICAL OPPOSITION, AND, BY HOLDING OUT THE PROSPECT OF REGISTRATION, TO GAIN LEVERAGE OVER THE PCM AND OTHER LEFTIST GROUPS.

7. UNIVERSITY UNIONS CAUSING HEADACHES

MEXICAN COMMUNIST PARTY AND OTHER LEFTIST SUPPORTED EFFORTS TO UNIONIZE ACADEMIC AND ADMINISTRATIVE PERSONNEL ARE HAVING SUCCESS IN SEVERAL OF THE NATION'S UNIVERSITIES. AT MEXICO CITY'S MAMMOTH NATIONAL UNIVERSITY (260,000 STUDENTS) TWO UNIONS HAVE MERGED TO DEMAND A SINGLE COLLECTIVE CONTRACT. STRIKE DEADLINE IS JUNE 20. AT PROVINCIAL UNIVERSITIES IN OAXACA, ZACATECAS, AND NAYARIT, SIMILAR MOVEMENTS HAVE FORCED REFERENDUMS OVER UNIVERSITY RECTORSHIPS, EACH OF WHICH HAS BEEN WON BY THE RECTOR WITH UNION BACKING. A SIMILAR CONFLICT IS NOW COMING TO A HEAD IN GUANAJUATO.

8. ECHEVERRIA NAMED THIRD WORLD AMBASSADOR - CABINET SHAKEUP RUMORED

GOM ON MAY 16 APPOINTED FORMER PRESIDENT ECHEVERRIA AS "SPECIAL AMBASSADOR TO DEVELOPING NATIONS,, AN ASSIGNMENT ON WHICH ECHEVERRIA DEPARTED IMMEDIATELY AND

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WHICH PRESUMABLY WILL KEEP HIM OUT OF MEXICO FOR EXTENDED PERIODS. THE APPOINTMENT FOLLOWED REPORTS OF PRESIDENTIAL ANNOYANCE OVER ECHEVERRIA CONTINUING TO SEE OLD POLITICAL FRIENDS AND CONTACTS. ANTI-ECHEVERRIA ELEMENTS, PERHAPS SEEKING TO OPEN WIDER THE SMALL BREACH IN PRESIDENT LOPEZ PORTILLO'S POLICY OF PROHIBITING PURGES AGAINST MEMBERS OF THE PREVIOUS ADMINISTRATION, ARE MOUNTING CAMPAIGNS AGAINST EDUCATION SECRETARY PORFIRIO MUÑOZ LEDO IN PARTICULAR, AND ALSO AGAINST PROGRAMMING AND BUDGET SECRETARY CARLOS TELLO, WHO WHILE CLOSE AND LOYAL TO LOPEZ PORTILLO, ALSO BEARS THE TAINT OF A CLOSE ASSOCIATION WITH ECHEVERRIA. THESE ATTACKS HAVE GROWN FROM ONE LINE SEMI-SLANDEROUS COMMENTS IN POLITICAL COLUMNS TO RUMORS OF A SIZEABLE CABINET SHAKEUP.

9. FOREIGN AFFAIRS DEVELOPMENTS

A. THE LOVE-FEAST CONTINUES

THE MOVE TO IMPROVE US-MEXICAN RELATIONS BASED ON THE SPIRIT OF "NEWNESS" OF BOTH NATIONS' GOVERNMENTS RECEIVED TWO MORE POSITIVE IMPULSES DURING THIS REPORTING PERIOD WITH THE US-MEXICAN INTERPARLIAMENTARY MEETING HELD IN SONORA STATE MAY 26-30, AND THE VISIT TO WASHINGTON OF FOREIGN SECRETARY SANTIAGO ROEL, MAY 26 TO BRING INTO MOTION THE BILATERAL CONSULTATIVE MECHANISM AGREED UPON LAST FEBRUARY.

IN SONORA, THE MEXICAN AND US LEGISLATORS DISCUSSED AT LENGTH MAJOR BILATERAL ISSUES INCLUDING ILLEGAL MIGRATION AND ENERGY, IN DEBATES THAT THE MEXICAN PRESS CHARACTERIZED AS FRANK BUT LACKING IN ACRIMONY. THE OPENNESS AND CORDIALITY OF THE SESSIONS UNDOUBTEDLY DID MUCH TO REDUCE THE ILL-FEELING GENERATED LAST YEAR WHEN 76 US CONGRESSMEN SENT PRESIDENT FORD AN OPEN LETTER DECLARING THAT MEXICO WAS "GOING COMMUNIST."

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SIMULTANEOUSLY, MEXICAN-US RELATIONS WERE FURTHER CEMENTED BY FONSEC ROEL'S VISIT TO WASHINGTON ON MAY 26, ACCCOMPANIED BY CHIEF GOM ECONOMIC PEOPLE, AND BY THE SUBSEQUENT ESTABLISHMENT OF THREE HIGH LEVEL BILATERAL COMMITTEES-POLITICAL, ECONOMIC, SOCIAL- WHICH WILL STUDY IN DEPTH, AND FOR THE FIRST TIME IN AN INTEGRATED FASHION, THE MYRIAD BILATERAL PROBLEMS THE TWO NATIONS FACE. PRESIDENT CARTER'S HISTORIC SIGNING OF PROTOCOL I OF THE TREATY OF TLATELOLCO, DURING THE VISIT, WAS A GESTURE, WHICH MEXICO, AS PRIME MOVER OF THE TREATY, OBVIOUSLY APPRECIATED.

10. B. THEY'RE COURTING THE OTHERS, TOO.

NOW THAT THE NEW GOM BUREAUCRACY IS SETTLING IN, PENDING ARRANGEMENTS WITH OTHER FIRST, SECOND AND THIRD WORLD NATIONS ARE GETTING THE ATTENTION THAT WAS SOMEWHAT LACKING IN THE FIRST 100 DAYS OF JLP'S ADMINISTRATION WHEN US-MEXICAN RELATIONS DOMINATED EVERYONE'S THINKING.

BESIDES REFURBISHING ITS IMAGE WITH THE US, THE GOM HAS CONFIDENTIAL

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ALSO MADE A MAJOR EFFORT TO GET ACROSS THE MESSAGE TO EUROPEAN BUSINESSMEN THAT FOREIGN INVESTMENT IS ONCE AGAIN WELCOME IN MEXICO. A THREE-DAY SESSION OF TALKS WAS HELD IN MEXICO CITY IN MID-APRIL IN WHICH THE TOP GOM ECONOMIC OFFICIALS MET WITH EMBASSY AND BUSINESS REPRESENTATIVES FROM 12 WESTERN EUROPEAN NATIONS AND ISRAEL. (MIXED REVIEWS - THE BUSINESSMEN LEFT STILL CAUTIOUS ABOUT MEXICO'S NEAR-TERM ECONOMIC PROBLEMS, BUT FAVORABLY IMPRESSED WITH JLP'S ECONOMIC TEAM).
GOM OFFICIALS HAVE ALSO MET MORE QUIETLY WITH OFFICIALS FROM THE EEC TO IMPROVE MEXICO'S TRADING POSITION WITH COMMON MARKET. SINCE THE OPENING OF MEXICAN-SPANISH RELATIONS, BUSINESSMEN FROM BOTH NATIONS HAVE BEEN TRAVELLING BACK AND FORTH SPEAKING WITH GREAT OPTIMISM ABOUT THE SUITABILITY OF MEXICO FOR JOINT INVESTMENT

PROJECTS AND A GENERAL INCREASE OF SPANISH CAPITAL INTO MEXICO.

THE GOM HAS ALSO RECENTLY REFOCUSSED SOME ATTENTION ON UNFINISHED AGREEMENTS WITH COMMUNIST NATIONS IN ITS SEARCH FOR INVESTMENT CAPITAL. ALTHOUGH TRADE WITH THESE NATIONS HAS DECREASED IN 1977, BOTH YUGOSLAVIA AND THE GDR HAVE SIGNED JOINT INVESTMENT AGREEMENTS WITH MEXICO IN THE PAST MONTH. IN CONTACTS WITH THE THIRD WORLD NATIONS, THE GOM HAS PUSHED FOR LONG-OVERDUE MIXED-COMMISSION MEETINGS WITH BRAZIL AND IRAN, INDICATING THAT THIS GOM IS MORE CONCERNED WITH ECONOMIC ADVANTAGE IN ITS BILATERAL RELATIONS THAN WITH IDEOLOGICAL CONGRUENCE.

THE GENERAL INCREASE IN MEXICO'S BILATERAL EXCHANGES IN THE PAST TWO MONTHS SHOWS THAT JLP IS STILL PURSUING THE FOREIGN CONTACTS SO AVIDLY SOUGHT BY HIS PREDECESSOR, BUT SELECTIVELY AND PRAGMATICALLY. THOMPSON

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